UIA (Insurance) Limited

Annual Report and Financial Statements for the year ended 31 December 2016

UIA (Insurance) Limited

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Registered Office

UIA (Insurance) Limited
Kings Court
London Road
Stevenage
Herts
SG1 2TP

Advisors

Auditor

Deloitte LLP

Bankers

Unity Trust Bank plc

Investment Managers

Fiske plc
Royal London Asset Management Ltd
Rathbone Brothers PLC

UIA (Insurance) Limited

CHAIRPERSON'S STATEMENT FOR 2016

Board composition

It is an honour and a privilege to be the Chairperson of your insurance company, having been elected in March 2016 following the retirement of Mike Hayes. Mike had completed nine years on the Board of Directors, the final three as Chair of the Board. Mike brought a wealth of experience from UNISON where as an Executive Council member he chaired the Finance committee. I would like to thank Mike for all his hard work and dedication helping to develop UIA from a committee of UNISON into the thriving modern independent mutual insurance Company it is today.

In January 2016 the Board was delighted to appoint Chris McElligott as Marketing Director. Chris had been Head of Marketing at UIA for over four years and having attended every Board meeting in that time is fully conversant with, and successfully contributes to the running of the Company. His appointment as an Executive Director was confirmed by the membership at the AGM held in June.

In April 2016 we completed recruiting a successor for our former CEO, Ian Cracknell, who left the Company in December 2015. In accordance with the Association of Financial Mutuals Annotated Corporate Governance Code, we conducted a formal, rigorous and transparent recruitment procedure. To assist us with this, we engaged Warren Partners and the expert knowledge of Senior Partner, Rupert Gibb, who specialises in Mutual Sector appointments.

Candidates underwent a three-level interview process as well as psychometric testing. The Board was finally delighted to approve the appointment of Jon Craven. Jon has vast experience of insurance and financial services and will prove to be a great asset to the Company.

At the end of April 2016 another long-serving Director, Andrew Wainwright-Brown, retired from the Board. Andrew was recruited in 2010, bringing a wealth of recent financial experience. Andrew chaired the Audit committee, Risk committee and was the Senior Independent Director. In all these roles he served your Company with distinction. Finally, Andrew stepped up to be acting CEO and helped shape the operational plan for 2016. I would like to place on record my thanks for all Andrew has contributed to the success of the Company.

A similar recruitment process was used to recruit two Independent non-executive Directors and we welcomed onto the Board Oliver Peterken and Tim Holliday. Both have vast insurance and financial services backgrounds that complement the skills of the existing Board members.

Governance

Our Mutual status means there are no shareholders or investors expecting a share of the profits. Instead, profits are reinvested in the Company, keeping premiums low while providing members and their families with a wide range of real value–for-money products – all backed by our fast and friendly service. It is the team at UIA that makes us stand out from the crowd and I am immensely proud of the work we do to help our members put things right at their time of need.

The Governance objectives of the Board are set out in our Board Charter. This was updated in 2016 to reflect the introduction of the Senior Insurance Management Regime (SIMR). Directors, where appropriate, are controlled function holders under SIMR. I am pleased to report that in 2016 a majority of Non-Executive Directors were independent as defined by the Association of Financial Mutuals UK Corporate Governance Code. As Chair, I firmly believe that there will always be a need for the balance of the Board of Directors to include nominees from our trade union affinity partners. All appointments to the Board are managed by the Nominations and Remuneration committee (N&R) ensuring any candidate meets the criteria set by the committee.

The Board has three committees. All the members of the Audit committee are independent. It is also pleasing to note that during 2016 a majority of the N&R committee and the Risk committee were independent.

Financial performance

The end of 2015 brought severe weather storms which continued into 2016, and when added to a number of large fire claims, and offset by the release of the equalisation provision due to regulatory change, had an impact on our underwriting profit where we report a profit of £1.4 million.

These could be described as just industry-wide trends. However, here at UIA Mutual we recognise each and every one of our members' claims represents a disaster affecting their property and the impact that has on our members' lives. That is why I am so proud of our team who deal with putting things right when disaster strikes.

CHAIRPERSON'S STATEMENT FOR 2016 (continued)

Financial performance (continued)

The financial markets saw another volatile year in 2016, both in the UK and worldwide. Huge political events such as the BREXIT vote in June and the United States election caused various degrees of fortune. However, we continue to invest our members' money wisely to ensure the greatest possible return whilst balancing the security of our investment portfolio. It is therefore pleasing to note a good investment return for the year.

Elsewhere in this report you will find the detail of our 2016 financial results so I do not intend to dwell on the finer points here. The headline results are an overall group profit of £5.5 million and the total group assets are £79.4 million.

Future strategy

Our roots are embedded in the trade union movement. We continue to be proud of the bonds that define our past and shape our future. The growth in membership from our union partners has been particularly strong and we will continue to work with all our union partners to optimise our potential.

Our people

Your Board of Directors takes the role of setting the culture of the organisation very seriously. The most important part of UIA Mutual is the colleagues who work on your behalf. In 2016 we have worked hard at modernising people practices. In 2017 we plan to continue with this work and the Board has agreed a significant number of people plan goals.

Working with the community

Through our Charitable Foundation we work with local, national and international projects that support and develop the social aims and aspirations of not only our trade union partners but also colleagues employed here at UIA Mutual who raise additional funds for local causes.

In 2016 we gave financial support to eight local organisations and made substantial donations to causes nominated by our trade union partners.

Amy Marren

For a number of years we have supported paralympic swimmer, Amy Marren. Amy successfully competed in the Rio 2016 Paralympics, winning a well-deserved bronze medal. We were delighted when Amy found time to visit us last summer, meeting many colleagues working in the building on that day. We will continue to support Amy in her bid to compete at the 2017 Paralympic World Championships and we wish her good luck there.

Thanks

I'd like to conclude by thanking the staff, management team and Board for their hard work during 2016.

Peter Dodd

Peter Dodd
Chair of the Board
4 April 2017

STRATEGIC REPORT

Business model and strategy

Our mission is to be the first choice personal lines insurance provider to members of trade unions and like-minded members of the general public. In order to achieve this mission our desire is to remain an independent mutual that is financially strong and operating profitably. Our key measures of strength and profitability are our Solvency ratio and our Combined Operating Ratio and we aim to deliver these key targets primarily through the underwriting and administration of household insurance, supported by the sale of other complementary products. During the year under review, the Company commenced underwriting assistance (Class 18), business and also Before The Event (BTE) legal business. We also continue to underwrite After The Event (ATE) legal expenses insurance, although this business is largely in run-off. As a mutual, we have no shareholders to pay and we are thus able to generate long-term value to our policyholders. We aim to do this through a combination of excellent customer service, competitive premiums and the prompt payment of all valid claims.

Our strategy is dual focused.

Firstly, to continue extensive engagement with members of our key business partners (the trade unions) through a number of different communication channels, including direct mail, digital, magazines, conferences and face-to-face contact with key branch, regional and national secretaries.

Secondly, to offer our products to like-minded members of the general public through our Together Mutual Insurance brand, largely through digital routes. Through this brand we also seek to develop our “Affinity” relationships with like-minded organisations, as well as expanding into adjacent markets.

We are solely UK-based with a call centre encompassing the entire operation from sales and policy administration to claims handling and payment in Stevenage and an out-of-hours 24/7 claims service operating from Cardiff.

Review of the business

The results of the Group for the year ended 31 December 2016 are set out on pages 30 to 31 and the balance sheet position at the year-end is set out on pages 33 to 34.

The Group, led by the performance of the parent Company, UIA (Insurance) Limited, has had a satisfactory year, with profit from underwriting of £1.4 million. This has been primarily driven by the release of the equalisation provision of £4.1 million due to the change in regulatory rules, offset by a small number of large coincidental fire losses of £1.3 million and with significant investment gains of £4.7 million has resulted in a Group profit for the year of £5.5 million (2015: £1.7m).

At the end of the year, the Group had total assets amounting to £79.4 million (2015: £79.9 million) of which £58.6 million (2015: £ 55.7 million) were investment fund assets. The reduction in total assets is due to a combination of factors: the value of our financial investments has increased by £2.9 million (2015: £2.2 million); due to the change in regulatory requirements, we have fully released the equalisation provision of £4.1 million (2015: nil), and this was offset by an increase in our final salary pension liability provision of £5.5 million (2015: £5.5 million). The primary reason for this significant increase is a decrease in the discount rate (from 3.8% to 2.7%) used to value our liabilities under this scheme.

By the year-end, the Group had £37.1 million (2015: £37.1 million) of retained profits.

Key performance indicators (KPIs)

The Board considers that, in addition to the overall profits shown in the Review of the business above, the following metrics represent the key financial dynamics of the Group:

STRATEGIC REPORT (continued)

Key performance indicators (KPIs) (continued)

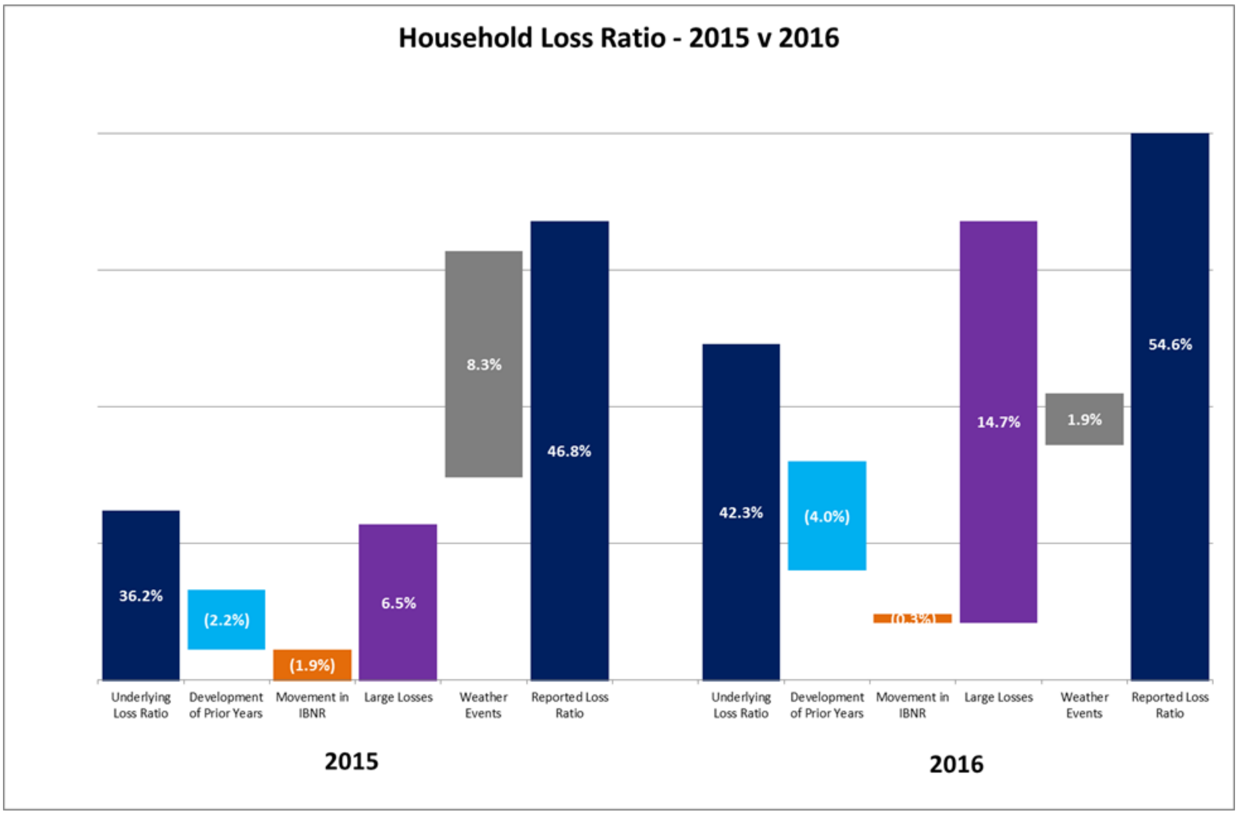
Key Performance Indicator	2016 Actual	2016 Budget	2015 Actual
Combined operating ratio	115.2%	96.3%	92%
Household loss ratio	54.6%	42.1%	46.8%
Underlying household expense ratio	60.6%	46.1%	50.3%
Retention rate	80.6%	78.9%	82%
Investment yield	2%	2%	0%
Return on capital employed	0%	4%	8%
Solvency II cover	172%	201%	188%

Combined Operating Ratio (COR) is a common measure for insurance companies and is calculated as Total Costs (Claims plus Commission and Expenses) divided by Net Earned Premium Income. The 2016 COR is shown exclusive of the release of the equalisation provision.

Our retention rate is also holding up well, and is near market-leading, despite intense competition from aggregator routes and the increasingly soft market.

Finally our solvency ratio has reduced over the year as a result of the high exposure to market risk, which led to a decision taken during the year to re-balance the portfolio of assets slightly away from equities into a corporate bond fund, pending a fuller review of our investment strategy and in particular our strategic asset allocation.

The chart below shows how our underlying loss ratio is comprised. In last year's annual report we noted that ordinarily we would expect at least 5% of our loss ratio to be derived from flood claims, and the December flood events added 7% alone to our loss ratio.



STRATEGIC REPORT (continued)

Key conduct indicators

One of the ways in which we can continue to differentiate ourselves as a mutual is to display those attributes that a customer-centric organisation has at its heart. Those attributes of fairness, trust and community coupled with a high level of member service are key to what we do.

The table below shows the position taken from the December 2016 monthly Management Information pack.

Conduct Risk Indicator	Management Information	Actual Nov-16 Month	Actual Dec-16 Month	Target	RAG Status	Change in risk
Service levels	Customer Services	80.5%	77.7%	>80%	AMBER	↑
	New business	73.5%	58.8%	>80%	RED	↑
	Claims Abandoned Calls (12 Month Rolling)	4.9%	4.6%	<2%	RED	↓
NTU	NTU rate from Finance	2.7%	2.0%	<5%	GREEN	↓
Declined claims	Percentage of claims declined	13.6%	8.7%	<25%	GREEN	↓
Customer satisfaction	Marketing Survey	94.0%	94.0%	>90%	GREEN	→
Customer satisfaction	Claims CSS	95.0%	94.0%	>90%	GREEN	↑
	Propensity to renew Claims CSS	100.0%	100.0%	>90%	GREEN	→
Reportable complaints	Claims	12	9	<20	GREEN	↓
	Customer Services	-	4	<5	GREEN	↑

NTU – Not Taken Up – Policies cancelled during cooling-off period
CSS – Customer Satisfaction Score – Questionnaire sent to members after making a claim

The results illustrate that we are continuing to deliver across a basket of key service metrics for our members, and we have addressed some of the challenges we faced in our claims area with the recruitment of new colleagues and the introduction of improved call handling capability.

Executive pay

Members of the Executive Group are incentivised to exceed both performance and conduct risk indicators, and the Long Term Incentive Plan's structure tracks both the long-term viability of the business and measures of member satisfaction. The Nominations and Remuneration Committee oversee the performance of the Plan.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are reviewed regularly by the Board and are outlined below.

Risk heading	Risk description	Controls/actions
Insurance risk	The Group's business is to accept insurance risk which is appropriate to enable the Group to meet its objectives.	Within a Board approved underwriting policy and agreed risk appetites, the Group seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
Operational risk	Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events	The Group seeks to manage this risk exposure through continual enhancement of its systems and controls, and ensuring appropriately experienced personnel are in place throughout the Company

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Risk heading	Risk description	Controls/actions
Reserving risk	Reserving risk is associated with insurance risk after the coverage is expired and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debt provisions. There is a possibility that the Group's management does not make sufficient provision for exposures which could affect the Group's earnings and capital.	The Group's actuarial team uses a range of recognised actuarial techniques to project the gross written premium, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinion to the Group confirming that in their view the Group's provisions are within a range of acceptable best estimate.
Credit risk	The Group's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Group might not be able to limit its credit exposure which could affect earnings and capital.	The Group, through the Board and risk committee, seeks to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk.
Liquidity risk	Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Group to meet obligations as they fall due.	The Group, through the Board and risk committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Group maintains a strong liquidity position.
Market risk	Market risk is the risk arising from fluctuations in the values of, or income from, the Group's assets due to fluctuations in equities, interest rates, and/or exchange rates.	Market risk is managed through our assets being diversified by type and class, daily monitoring of prices by the Finance Director and regular meetings with investment fund managers. A review of the strategic asset allocation policy has been initiated.
Pension risk	The current employer pension scheme is in a deficit position. Triennial valuation took place in 2014 with an overall deficit of £123 million, of which UIA's share is approximately 4.5%.	A recovery plan remains in place between the Principal Employer and the members, which includes a reduction in benefits for future service, which acts to reduce the impact of future service accrual on the deficit. The Company has established a working group to monitor and look at alternative solutions to the current situation.
Conduct risk	Conduct risk refers to the risks attached to how the Group and its staff conduct their business on the market-place and in respect of our customers and suppliers. Failure to create, manage and monitor the appropriate internal controls to understand and manage the Group's conduct risks could result in regulatory sanctions and/or fines, reputation damage and loss of business.	The Group operates a Treating Customers Fairly (TCF) forum, which meets on a monthly basis, to review all issues of possible customer detriment under existing TCF guidelines and is fully supported by the whole Group.

STRATEGIC REPORT (continued)

Future development

Our aim is to continue to develop the business so that we can continue to offer our members competitive household and other quality insurance products. We operate in a fiercely competitive market-place where there is increasing commoditisation and homogenisation. Therefore, to ensure that the business is sustainable, and that we have a point of differentiation in a crowded market, the organisation is positioning itself to not only offer our customers competitive premiums but to treat them as members of a community built on fairness, trust and the high level of service they demand from us.

An example of our commitment to this was the investment we made in our pricing capability during the year. Under the 'Building Level Tariff' initiative, we are now better able to price on the specific risk presented to us for new business. In a similar vein, we also improved our ability to trade with our key aggregator partners which has resulted in us attracting more, better priced business.

In 2016 we began to report formally to the regulator under the new regime of Solvency II, and we are well equipped to deal with the requirements across all three "Pillars" of Governance, Capital Requirements and Reporting.

We recognise that UIA has to be capable of not only meeting members' requirements now but meeting their future needs as well. We therefore continue to invest in product enhancements and in the skills of our staff and operational capability to ensure that UIA prospers as a modern, independent mutual insurance company.

Jon Craven
Director
4 April 2017

UIA (Insurance) Limited

CORPORATE GOVERNANCE REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

Strategic report

The principal activity of the Company is the transaction of general insurance business. A review of the year and future developments of the Group are contained within the Strategic Report.

Future developments

Details of future developments can be found in the Strategic Report on page 8 and form part of this report by cross-reference.

Distribution

The Directors do not recommend the payment of a distribution for 2016 (2015: nil).

Directors

The following Directors held office throughout the year, except as noted below:

Bob Abberley	
Peter Dodd	Chair from 14 March 2016
Lucia McKeever	
Eithne McManus	
Marion Saunders	Acting Senior Independent Director (awaiting regulatory approval)
Eleanor Smith	
Tony Woodley	
Chris McElligott	Appointed 20 January 2016
Jon Craven	Appointed 2 February 2016
Mike Hayes (Chair)	Resigned 14 March 2016
Andrew Wainwright-Brown	Resigned 30 April 2016
Tim Holliday	Appointed 1 May 2016
Oliver Peterken	Appointed 1 May 2016
Ben Terrett	Resigned 1 March 2017

Statement as to disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Jon Craven
Director
4 April 2017

CORPORATE GOVERNANCE REPORT (continued)

Board of Directors

Jon Craven Chief Executive Officer - Executive

Jon was appointed Interim CEO after the end of the financial year, commencing employment on 2 February 2016. Following an extensive recruitment process, Jon was appointed to the position permanently on 4 April 2016. Jon has extensive experience within the financial services sector and has specific skills in the initiation and delivery of major strategic and profitable partnerships in banking, insurance and healthcare. Prior to joining UIA, he operated as a business consultant to Simply Health.

Chris McElligott Marketing Director - Executive

Chris was appointed Marketing Director on 20 January 2016, having joined the Company as Head of Marketing in July 2012.

Chris is a senior marketer and has spent over 20 years working for and developing a number of high profile brands in the UK ranging from Fast Moving Consumer Goods (FMCG) to Financial Services. Chris' career started in direct marketing, and Chris is now highly experienced in digital marketing and the applications of social media. Chris has professional marketing qualifications and remains a lifelong student, and a long-serving member of the Institute of Direct and Digital Marketing.

Bob Abberley Non-Executive Director

Bob has been on the Board since June 2014. Bob was previously Assistant General Secretary for UNISON, with responsibilities ranging from inter-union relationships, industrial action strategies and pension governance.

Bob is a member of both UNISON and Unite trade unions and has been a UIA policyholder for over 15 years.

Peter Dodd Non-Executive Director – Independent – Chair

Peter was appointed a non-executive Director in 2009. Peter is chair of the Board following PRA approval on 10 February 2017.

Peter worked for the Post Office for 23 years and then for the Communication Workers Union (CWU) for 10 years. Peter held positions within the CWU from 1976 to 2007. He is a Director of the Mechanics Centre Ltd, an Employment Tribunal Member, a lay member of the National Institute for Health Research and a governor of the Central Manchester & University Hospitals Foundation Trust, where he chairs the Patient Experience Committee.

Tim Holliday Non-Executive Director - Independent

Tim joined the Board in May 2016.

Tim spent 19 years working in insurance for Eagle Star and then Zurich Insurance. Tim was Chief Underwriting officer for Zurich's UK Branch and also Managing Director of Zurich's Personal Lines business including its student broking subsidiary Endsleigh. Tim has also previously sat on the board of the Motor Insurance Bureau and the Insurance Fraud Bureau and is a former President of the Southampton Chartered Insurance Institute.

Lucia McKeever Non-Executive Director – UNISON Representative

Lucia has been on the Board since January 2014 and is a past President of UNISON. Lucia is a champion of equality and human rights, and became active in the trade union movement more than 20 years ago.

CORPORATE GOVERNANCE REPORT (continued)

Board of Directors (continued)

Eithne McManus Non-Executive Director – Independent

Eithne has been on the Board since November 2014 and currently chairs the Audit Committee. Eithne is a Fellow of the Institute of Actuaries and a Chartered Enterprise Risk Actuary. Eithne was previously Chief Executive and Chief Financial Officer of City of Westminster Assurance, and is currently a Director of Countrywide Assured. Eithne also acts as a consultant and trainer to financial services companies.

Oliver Peterken Non-Executive Director - Independent

Oliver joined the Board in May 2016 and is Chair of the Risk Committee.

Oliver is Deputy Chairman of the Willow Foundation. Oliver Peterken is a non-executive Director of MS Amlin plc and chair of their Risk and Solvency Committee, as well a non-executive Director of UK Export Finance. Previously Oliver was Chief Risk Officer at BUPA UK and at Aspen Insurance Holdings and before that and held various senior roles at Willis and the Prudential.

Marion Saunders Non-Executive Director – Acting Senior Independent Director

Marion was appointed a non-executive Director in 2010. Marion is currently the Senior Independent Director and Deputy Chair of the NHS Norfolk and Suffolk Foundation Trust, a member of the Information Rights Tribunal and the Conduct and Competency Committee of the Nursing & Midwifery Council. Marion has been a lay member of the Chartered Insurance Institute Council and chaired adult and children safeguarding boards. Marion chaired a Primary Care Trust for seven years following 25 years in local government where she held branch officer posts within NALGO. Marion is a retired UNISON member.

Eleanor Smith Non-Executive Director – UNISON Representative

Eleanor was appointed to the Board in 2012. She is a qualified and registered nurse and is employed by the Birmingham Women's Healthcare Trust. Eleanor was recently appointed staff nurse governor of her trust. Eleanor is a past President of UNISON and still maintains an active role as UNISON Branch Secretary whilst acting as the staff side lead negotiator for the Healthcare Trust. Eleanor had been a School Governors Chair for 12 years and has been in the past Constituency Secretary for her Local Labour Party.

Tony Woodley Non-Executive Director – Unite Representative

Tony was appointed to the UIA Board in February 2014 and is the representative for Unite, galvanising UIA's tie-in to the trade union. Tony has extensive experience within the union movement and was instrumental in the formation of Unite, at the forefront of negotiations with his union (TGWU) and Amicus. Tony is still heavily involved in the automotive industry and is a member of the influential Automotive Council UK, a government body designed to improve inward investment and create jobs in the UK.

The Board supports the principles of good corporate governance and is committed to maintaining a high standard of compliance with the Association of Financial Mutuals Annotated Corporate Governance Code, in the best interests of its members.

CORPORATE GOVERNANCE REPORT (continued)

Statement of compliance with the Annotated Combined Code

The Board considers that throughout the year ended 31 December 2016, the Company has applied the relevant principles and complied with the relevant provisions of the Association of Financial Mutuals Annotated Corporate Governance Code.

Role of the Board

The role of the Board is to set and manage the strategy for the Company in a manner that upholds the vision of the organisation. In addition, to deliver the maximum value to the Company for the benefit of its members, whilst complying with the relevant regulatory requirements, the Company's rules and the highest corporate governance standards.

The Board usually has six regular formal meetings in a year but other meetings are convened as required to allow the Board to review the Company's strategy and to agree the plans and budget for the forthcoming year. In 2016, in light of the expected increase in the Defined Benefit Scheme Provision, an extra meeting was convened.

The Statement of the Board's Reserved Powers is set out in the Company's Charter and relates in the main to factors affecting the long-term strategy of the Company, while day-to-day decisions are delegated to Executive Directors. These powers are set out below.

Board's reserved powers

The Board reserves itself to decisions that determine:

- The long-term prosperity, viability, security and reputation of the Company;
- Policies governing the way the Company is perceived and treats others;
- Relations with stakeholders;
- Policies covering material financial matters and commitments, statutory obligations, compliance, probity and ethical matters;
- Matters concerning the Board and senior management; and
- Authority levels.

Insurance

The Company maintains a Directors' and Officers' Insurance policy covering any potential of legal actions against the Directors.

Chair and Chief Executive Officer (CEO)

The roles of Chair and CEO remained separate throughout the year and their respective responsibilities have been agreed by the Board. The Chair's main responsibility is to lead and manage the work of the Board, to ensure it operates effectively, fully managing its responsibilities and ensuring the effective engagement and contribution of all Directors. The Chair encourages and promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. Responsibility for the day-to-day management of UIA is delegated to the CEO, supported by the Finance Director and Marketing Director.

Non-Executive Directors

During the year, the Board comprised of the Non-Executive Chairperson plus eight Non-Executive and three Executive Directors.

The Company has five Non-Executive Directors who fall within the definition of independence as outlined in the Annotated Combined Code.

CORPORATE GOVERNANCE REPORT (continued)

Non-Executive Directors (continued)

The Board believes that it functions effectively and efficiently and is of an appropriate size to provide a balance of skills and experience, manage conflicts of interest and allow changes in composition without undue disruption. It also believes that it was able to provide leadership and give direction without any imbalance that may have allowed one individual or group to dominate decision-making.

The Board regularly reviews its own balance, diversity, and effectiveness to meet the Company's requirements and business strategy.

The Board has appointed a Senior Independent Director (who is currently subject to regulatory approval), as required by the Code, to provide an alternative point of contact to the Chair, and Executive Directors, for members who have concerns that cannot be addressed through the normal channels. The Senior Independent Director also leads the appraisal of the Chair and the Board.

Board appointments and re-election

All Board appointments are subject to a rigorous process instigated by the Nominations and Remuneration committee, and ratified by the Board.

All Non-Executive Directors receive a full, formal and tailored induction on joining the Board.

All Directors are subject to election by the members at the Annual General Meeting following their appointment. They are required to seek re-election every three years following their first election. Before being appointed as a new Director, an individual is required to provide details of their current other commitments for review to ensure that they can carry out their role effectively and efficiently. In addition, all Directors are required to be notified to the Prudential Regulation Authority and Financial Conduct Authority, with roles, such as the Chair and certain Committee Chairs requiring prior approval before they can operate as a Director or Chair.

Performance evaluation

During the year we also completed an internal review of Board effectiveness led by the Senior Independent Director.

Information and support

All Directors are authorised to seek, at the Company's expense, appropriate professional advice which enables proper discharge of their collective responsibilities. In addition the Company Secretary is available at all times for support and advice.

Duty to prepare accounts

The Directors acknowledge their responsibilities for preparing accounts and a full statement of Directors' Responsibilities is set out on page 22. These narrative statements, together with the Consolidated Statement of Profit and Loss, the Consolidated Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the accounts, provide relevant and proportionate detail to our members in order for them to assess business performance and business strategy. The Directors also consider that this annual report and accounts together, taken as a whole, represent a fair, balanced and understandable view of the business at the present time and provides the information necessary for a proper assessment of the performance of the Company.

Going concern and future viability

The Strategic Report provides an overview of business performance, together with the Company's key performance indicators in respect of the year ended 31 December 2016. The Strategic Report also provides detail with regard to the Directors' assessment of the major risks and uncertainties facing the business in the future.

CORPORATE GOVERNANCE REPORT (continued)

Going concern and future viability (continued)

We have adopted the going concern basis in respect of the preparation of the accounts in respect of the year ended 31 December 2016 as we have adequate financial resources in order to meet our liabilities as they fall due. As stated in the Strategic Report, we have total assets of £79.4 million and investment assets of £58.6 million. Our unaudited quarterly reported Solvency Capital ratio was 172%.

As described in the Strategic Report, we have considered the principal risks and uncertainties facing the Company, including those that impact the Company's solvency, liquidity and profitability, as shown in the Company's Risk Register. At the Audit Committee meeting on 24 January 2017, we carried out an assessment of the appropriate period to consider the Company's viability and the Committee recommended to the Board that we continued to use a period of three years as this tied in with the Company's solvency forecasts as adopted through the Own Risk and Solvency Assessment (ORSA) process.

Having reviewed the business plans, including the Company's solvency under normal and stressed conditions, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Risk management and internal controls

The Company is committed to the highest standards of risk management and internal control. The Board is accountable to the members of the Company for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

During 2016 and up to the date of approval of the annual report, the Company has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls, and compliance with laws and regulations.

Processes are in place for identifying, evaluating and managing on an ongoing basis, through the systems of risk management and internal controls, the risks facing the Company which include:

- Board discussion and approval of the Company's strategic objectives and plans, and the risks to achieving them;
- Board review of performance and approval of budgets;
- Regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- Review by the Risk Committee of any incidents of fraud, suspected fraud, material error or misstatement, and the controls in place to protect the Company against these risks;
- Regular reviews by the Audit Committee of the scope and results of internal audit and compliance work, and of the implementation of recommendations;
- The Audit Committee reviews the scope of work undertaken by the external auditors and any significant issues arising from them;
- The Audit Committee reviews accounting policies and levels of delegated authorities; and
- The Board considers the key risks facing the Company, as documented in the risk register, and of the effectiveness of the controls in place to mitigate their impacts.

The internal control system is monitored and supported by the Internal Audit function that reports to the Audit Committee on the Company's operations. During 2016, the information received and considered by the Audit Committee provided assurance that there were no material control failures and this is evidenced by the Annual Audit Opinion as provided to us by our outsourced Internal Audit Function, RSM.

The Board has put in place an organisational structure with formally defined roles and responsibilities. Operational responsibility rests with the CEO and devolves through the executive structure with clearly defined levels of authority. There are established procedures for planning, approval of capital expenditure, information and reporting systems, and for monitoring the Company's business and performance. These include:

- A governance framework including terms of reference for the Board and its committees;

CORPORATE GOVERNANCE REPORT (continued)

Risk management and internal controls (continued)

- A clear organisational structure;
- Documented apportionment of responsibilities across the Company;
- Processes for assessing the adequacy and effectiveness of internal controls and for ensuring that these remain appropriate to the scale and complexity of activities;
- A detailed financial controls to safeguard assets from inappropriate use or loss;
- Monthly monitoring of key performance indicators against plans for the year;
- Detailed framework of operating policies and procedures including risk management and control standards;
- Recruitment policies to select employees of the necessary calibre and experience to fulfil their responsibilities;
- Clear roles and accountabilities with regular performance reviews; and
- A whistle blowing procedure to enable staff to raise concerns in confidence.

The Board actively encourages a culture of continuous improvement to ensure systems of control are maintained.

As part of this process, managers of the operational areas and of each major project are required to identify the risks, the probability of their occurrence, the impact if they occur and the actions being taken to manage these impacts to the desired level. Managers are required to monitor and report on the key risks in their areas, highlighting whether these are stable, increasing or decreasing, as well as maintaining a risk log providing details of significant incidents and loss events. A consolidated report is submitted to every meeting of the Risk Committee providing an analysis of risks reported in the period, together with all changes to the Company risk register.

The Board confirms that there has been in place for the year under review an ongoing process for identifying, evaluating and managing the risks faced by the Company that are significant to the achievement of its business objectives.

In light of the above, the Board has made an assessment of the effectiveness of its system of governance, risk management and internal control and concluded that it is appropriate for its size and complexity and no significant weaknesses have been identified.

Internal audit function

During the year under review, our internal audit function was outsourced to RSM.

Internal audit reviews are scheduled using a risk-based approach, in accordance with a three-year audit cycle. The risk based approach concentrates on those areas that are considered higher risk, derived from the Company's risk register, through discussions with senior management and the Chair of Audit, and through the Internal Auditor's own independent assessment. The Internal Audit function reports directly to the Chair of the Audit Committee, although day-to-day contact is maintained through the Finance Director.

Annual general meeting

The Board believes that it is important to obtain the views of its members and understand any issues which may concern them. The Company gathers valuable feedback from members using questionnaires and surveys. The AGM is another opportunity for the Company to communicate with members. The Directors attend the AGM and members have the opportunity to ask questions during the meeting and to meet Directors following the conclusion of the formal part of the meeting.

At the 2016 AGM, a number of resolutions were voted on including:

- To receive the annual report of the Board, the auditor's report and the audited financial statements for the year ended 31 December 2015;
- To approve the remuneration report for the year ended 31 December 2015;
- To authorise the Board to re-appoint Deloitte LLP as auditors for the Company and to agree that their remuneration be determined by the Board;
- To re-elect Marion Saunders as a member of the Board;
- To re-elect Eleanor Smith as a member of the Board;
- To re-elect Lucia McKeever as a member of the Board;
- To re-elect Bob Abberley as a member of the Board;

CORPORATE GOVERNANCE REPORT (continued)

Annual general meeting (continued)

- To re-elect Ben Terrett as a member of the Board; and
- To re-elect Chris McElligott as a member of the Board, having been appointed by the Directors since the 2015 AGM and pursuant to Rule 71 of the Company.

Board Committees

The Board has established Committees to deal with certain functions in detail. The Terms of Reference of the committees are available on the Company website. Details of the Board Committees are as follows:

Attendance at 2016 Board and Committee Meetings

	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Director	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Bob Abberley	7 (7)	-	2 (2)	1 (1)
Jon Craven	6 (7)	-	-	-
Peter Dodd	7 (7)	-	-	3 (3)
Mike Hayes	1 (1)	1 (1)	1 (1)	1 (1)
Tim Holliday	4 (4)	2 (2)	2 (2)	-
Chris McElligott	6 (7)	-	-	-
Lucia McKeever	6 (7)	-	-	2 (3)
Eithne McManus	7 (7)	4 (4)	4 (4)	3 (3)
Oliver Peterken	4 (4)	2 (2)	2 (2)	-
Marion Saunders	6 (7)	4 (4)	-	3 (3)
Eleanor Smith	7 (7)	-	4 (4)	-
Ben Terrett	7 (7)	-	-	-
Andrew Wainwright-Brown	2 (2)	2 (2)	2 (2)	2 (2)
Tony Woodley	5 (7)	1 (1)	-	1 (1)

The number in brackets represents the number of meetings that the Director was eligible to attend during the year.

The chair of the Board is Peter Dodd, and the chair of the Audit Committee is Eithne McManus. The chair of Risk during the year changed from Andrew Wainwright-Brown to Eithne McManus as acting chair, until the appointment of Oliver Peterken in January 2017. The chair of Nominations and Remunerations changed during the year from Peter Dodd to Lucia McKeever, as acting chair.

Changes to Directors in the year are noted in the Directors' report on page 9.

CORPORATE GOVERNANCE REPORT (continued)

Audit Committee

This Committee is scheduled to meet four times a year and also meets separately with the internal and external audit partner in the absence of Executive Directors. It assists the Board in discharging its responsibilities for the integrity of the financial statements and for ensuring the effectiveness of systems of internal control. It assists the Board in providing leadership, direction and oversight with regard to the Company's governance and regulatory policies and procedures, including those relating to compliance, financial malpractice and internal non-financial controls.

All members of the Committee are Non-Executive Directors and at least one member of the Committee (Eithne McManus) has recent and relevant financial experience.

The Committee is authorised to investigate any activity within its terms of reference. It monitors the integrity of the financial statements of the Company, reviewing the significant reporting judgements, in particular going concern, the adequacy of insurance technical provisions and the calculation and recognition of retirement benefit obligations contained in accounts. It reviews the Company's internal financial controls and the internal control and risk management systems. It monitors and reviews the effectiveness of the Company's internal audit function, reviews and approves the plan for the following year and discusses all findings and recommendations raised in respect of specific audits. It considers the appointment of and fees for external auditors, ensures that their objectivity and independence is safeguarded in respect of any non-audit services.

On 24 January 2017, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2016.

The issues the Committee considered during the year under review included:

- An assessment of the significant estimates and judgements used by the Directors in preparing the financial statements including technical provisions and the assumption of going concern;
- An assessment of the valuation and assumptions used to determine the Pension Scheme liability;
- A review of the structure of the reporting on Compliance matters to the Committee, and the balance in this between direct reporting from Branko Ltd (Compliance consultants) and internal reporting from the Finance Director; and
- The internal audit plan, and, in particular, how this was to change in the light of the cancellation of the Jigsaw project (to which a significant element of internal audit resource was originally planned to have been allocated), and the main Internal Audit findings.

Our external audit partner, Deloitte, had completed three years' service for us. We reviewed the quality of the service provided and decided not to retender for the service at that stage. The Committee considered the scope and fee levels of non-audit services provided by Deloitte. The nature of the non-audit services were not core to the systems of control of the Company, nor were they related to the production of the financial statements. The fee level was not deemed to be such that it would influence the judgement of the auditor in carrying out its audit. Therefore, the Committee considered that the work completed by Deloitte does not impair auditor independence.

Risk Committee

The Committee is scheduled to meet four times a year.

The Committee assists the Board in establishing, monitoring and amending the effectiveness and appropriateness of the Group's risk and management strategy and policies. At least once a year the Committee reviews the Risk Appetite and reports to the Board any recommendations including assessing the appropriateness of the Corporate Plan in the context of Risk Appetite. At each meeting it reviews the Risk Register to ensure that all material risks are included and assessed in accordance with the Risk Appetite and to ensure that for each risk a set of risk management processes and measures are in place to mitigate or minimise the impact of the risk identified. It reports to the Board any actions arising from the review of the Risk Register to be incorporated in the financial and operational plans as appropriate.

It reviews the Own Risk and Solvency Assessment (ORSA) policy and the ORSA itself, including having an input into the choice of stresses and scenarios that are considered as part of the ORSA and the appropriateness of the Standard Formula for the purposes of setting the Solvency Capital Requirement (SCR). The Committee encourages a culture of risk awareness throughout the Company. It provides advice on aspects of risk on request from the Board.

CORPORATE GOVERNANCE REPORT (continued)

Risk Committee (continued)

The Committee reports to the Board the outcome of each meeting and ensures that all members of the Board are fully aware of the output of the work of the Committee and the sensitivities or risks associated with the recommendations of the Committee.

The issues the Committee considered during the year under review included:

- The Company’s investment strategy and whether consideration should be given to a different asset allocation model;
- A review of the detailed risk register in relation to the following areas: Project Jigsaw (replacement of IT system) pricing and customer operations;
- The draft ORSA report and the quarterly SCR in the first year of Solvency II reporting; and
- The choice of reinsurance broker and the appropriate reinsurance strategy.

On 24 January 2017, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2016.

Nominations and Remuneration Committee

The Committee is scheduled to meet twice a year. The responsibilities of the Committee include reviewing the Board’s structure, size and composition, selecting and proposing to the Board suitable candidates for appointment as Directors, and succession planning. The Committee considers the balance of skills, knowledge, experience, length of service, independence, diversity (including gender), potential conflicts of interest and time commitment for all Directors.

The Committee determines the remuneration policy and individual remuneration packages for Directors. It reviews and approves changes to their annual salaries, performance award arrangements, fees, service contracts and other employment conditions.

In order to benchmark all roles both internally and externally, the Company utilises the services of Wolters Kluwer, and specifically the Croner Reward Scheme. Wolters Kluwer has no connection to the Company other than providing these services. During 2016, Willis Towers Watson was also engaged to benchmark Executive Director roles.

DIRECTORS' REMUNERATION REPORT

Remuneration policy for Executive Directors

The policy is that the remuneration for Executive Directors should reflect performance and enable the Company to attract, motivate, and retain suitably qualified individuals. The Nominations and Remuneration Committee uses an independent specialist advisor, Wolters Kluwer (Croner Reward Scheme), to provide survey data on remuneration levels in comparable companies.

Salaries

Base salaries are reviewed annually, and for competent performance, the Committee's policy is to pay around the median level indicated by the survey data.

Variable pay

Annual bonus
Executive Directors are eligible to participate in an annual performance-based, cash performance award scheme. The Committee reviews and agrees performance award targets and levels of eligibility annually. The performance award is based on two factors: overall underwriting performance and on achievement of a set of personal objectives, which directly support the business plan. The first factor is designed to pay out a maximum of 5% of base salary and there is a threshold below which no performance award is paid. Total awards for exceptional performance will not exceed 35% for the CEO and 20% for the Finance and Marketing Directors.

Long-term incentive plans
In the year under review, the Company operated long term incentive schemes which commenced on 1 January 2014, 1 January 2015 and 1 January 2016.

The schemes are wide-ranging which takes into account the performance of the Company over a longer period, tying in the Executive Directors to the long-term viability and performance of the Company. The schemes operate under a three-year cycle, with initial seed capital provided in the sum of £25,000 for the CEO, £20,000 for the Finance Director and £10,000 for the Marketing Director . This seed capital is then subjected to a number of key performance and key conduct indicators, agreed by the Nominations and Remuneration Committee at the start of the year. KPI measures include Solvency, Return on Capital Employed and Combined Operating Ratio. Conduct measures include Retention Rates, Complaints and Compliance breaches.

The amount only accrues if the performance target has been exceeded by 5% and is scaled as follows:

Percentage of performance 105% = 100% of seed capital
Percentage of performance 110% = 120% of seed capital
Percentage of performance 120% = 140% of seed capital

Whilst no payments have been made under the schemes for the prior two years, this year will see a pay-out of the first scheme based on the KPI measures achieved. At a meeting of the Nominations and Remuneration on 21 March 2017, the KPI's were reviewed and agreed. In the accounts the following amounts have been accrued for cash settlements to be made in April 2017:

CEO	£nil
Finance Director	£11,700
Marketing Director	£5,850

There is no payment due to the CEO as the participant left the Company in 2015.

At the Nomination and Remuneration Committee on 21 March 2017, the 2016 and 2015 schemes were reviewed. A decision was made to close both these schemes in accordance with the discretionary powers the Committee has as the schemes do not match the strategic direction of the Company.

DIRECTORS' REMUNERATION REPORT (continued)

Variable pay (continued)

Long-term incentive plans (continued)
At a meeting of the Nominations and Remuneration Committee in January 2016, it was agreed that the scheme be formally reviewed annually and all of the metrics, including KPIs, KCIs and the percentage of performance are subject to change, at the discretion of the Committee.

Pension

Executive Directors are eligible to be members of UNISON's Staff Pension Scheme, which is a defined benefit plan with a pension paid on retirement based on salary and length of service. Contributions of 9.1% were made in 2016 by way of salary sacrifice by the Directors plus a further 25% by the Company. The Company provides a lump sum benefit of four times basic salary in the event of death in service to Executive Directors, either through the scheme or independently.

Other benefits

Executive Directors are provided with a company car or receive a car allowance equivalent in value to the maximum permitted lease cost, plus insurance and servicing costs. The maximum permitted value varies with the role.

In addition Executive Directors are eligible to participate in the Company's Healthcare Cashplan arrangement which is run by Westfield Heath.

All Executive Directors have contracts of employment incorporating their terms and conditions that are normally terminable by either party giving six months' notice.

	Salary and fees	Long-term incentive plan	Benefits	Total **2016**	Total **2015**
	£	£	£	£	£
Executive					
Jon Craven	**100,625**	**18,125**	**7,721**	**126,471**	-
Ian Cracknell	**-**	**-**	**-**	**-**	426,504
Chris McElligott	**84,814**	**19,770**	**1,596**	**106,180**	-
Ben Terrett	**109,080**	**33,788**	**9,933**	**152,801**	127,806

Remuneration Policy for Non-Executive Directors

Fees for Non-Executive Directors are reviewed annually by the Nominations and Remuneration Committee with changes normally effective from 1 January. They are designed to recognise their responsibilities and are benchmarked against the same role in other comparable organisations using information from Croner. The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance-related and Non-Executive Directors do not participate in any bonus schemes. The basic salary for the Chairperson is £45,675 (2015:£45,000). The basic salary for the Non-Executive Directors is £26,999 (2015: £26,600), with the industry specialist Non-Executive Directors receiving £30,450 (2015: £30,000). Committee chairs are paid an additional £3,045 (2015: £3,000) in excess of their agreed Croner rates in recognition of their additional responsibilities. If Non-Executive Directors and / or chairs of Committee are appointed or resign during the year, then a pro-rata fee is applied.

DIRECTORS' REMUNERATION REPORT (continued)

Remuneration Policy for Non-Executive Directors (continued)

	Salary and fees £	Total **2016** £	Total **2015** £
Non-Executive			
Peter Dodd	**42,879**	**42,879**	29,600
Bob Abberley	**26,999**	**26,999**	26,525
Mike Hayes	**11,419**	**11,419**	45,000
Timothy Holliday	**20,300**	**20,300**	-
Lucia McKeever	**15,575**	**15,575**	34,033
Eithne McManus	**35,521**	**35,521**	32,833
Oliver Peterken	**20,300**	**20,300**	-
Marion Saunders	**29,029**	**29,029**	26,600
Eleanor Smith	**5,500**	**5,500**	24,498
Andrew Wainwright-Brown	**26,893**	**26,893**	36,000
Tony Woodley	**26,996**	**26,996**	26,600

Changes in Non-Executive Directors are noted in page 9 of the Directors' Report.

DIRECTORS' RESPONSIBILITIES STATEMENT

Directors Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Societies law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 (the Regulations) and the Companies Act 2006 require the Directors to prepare financial statements for each financial year. In accordance with the Regulations the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Regulations the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Regulations. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED

Opinion on financial statements of UIA (Insurance) Limited

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2016 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts"; and
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008.

The financial statements comprise:

- the consolidated statement of profit and loss;
- the consolidated statement of comprehensive income;
- the consolidated and Society balance sheets;
- the consolidated statements of changes in equity; and
- the consolidated cash flow statement and the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • *Technical insurance reserves* • *Valuation of defined benefit pension scheme* • *Revenue recognition* Within this report, any new risks are identified with and any risks which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was £310,000 which was determined on the basis of net earned premiums. The calculated materiality amount is approximately 1.5% of net earned premiums and less than 1% of capital and reserves.
Scoping	Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group was performed directly by the audit engagement team.
Significant changes in our approach	Aside from the identification of Revenue Recognition as a key risk in the current year, there have been no significant changes to our audit approach from either the prior year or our audit plan.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Society

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 9 that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 6-7 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 22 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 4 as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk title	**Technical insurance reserves**
Risk description	Insurance reserving for Household Incurred But Not Reported (IBNR) and specific loss events such as floods and fire, or any weather related events, remains the largest single area of which requires significant management judgement, particularly near the year-end. A small change in key assumptions could result in a material change in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

	The assessment of the calculation of the insurance technical provisions for claims outstanding requires management to make significant judgements in respect of the quantum of the ultimate cost of settling claims as set out in the accounting policy for claims incurred in note 2 to the financial statements. The reserve for gross claims outstanding was £10.6m at 31 December 2016 (2015: £12.3m) as set out in note 18.
How the scope of our audit responded to the risk	• We assessed the design and implementation of controls around the reserving process. This involved meeting with senior management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review of internal and external reserving reports. We checked that this report aligned to the data we were provided with by the Society and tested the underlying data used in the reserving process by reconciling the inputs to the audited claims data in order to evaluate its completeness and accuracy. • Utilising our actuarial specialists we challenged the methodology and significant assumptions inherent within the household claim reserves and evaluated the level of prudency applied. We did this by comparing the reserves to industry averages and, where applicable, obtaining explanations for any significant variances. • Additionally, we performed diagnostic checks in order to assess whether the household claims reserves appear reasonable or not. In particular, we challenged management over the appropriateness of the Society's methodology in relation to subsidence, liability and flood (weather) losses and the appropriateness of use of only incurred claims data in estimating technical reserves, and whether management considered any other data such as paid claims. We also reviewed the 2016 settlement experience for previous years' claims against assumptions made in the prior year to assess management's level of accuracy in predicting the uncertainties considered in calculating technical reserves. • Finally, we reviewed the disclosures in the financial statements in respect of any significant changes in accounting estimates and checked for compliance with accounting standards.
Risk title	**Valuation of defined benefit pension scheme**
Risk description	The Society operates a defined benefit pension scheme. There are key actuarial assumptions that are applied by management in estimating the pension liability to be recognised in the financial statements, particularly the discount rate to be applied to the liabilities, the future expectations of inflation, and current and future pensioner life expectancy. These are set out in the accounting policy for pension commitments in note 2 to the financial statements. These assumptions are particularly critical due to the recent market volatility and economic projections of an even more unstable market in the upcoming months and years. We therefore consider this a significant risk to ensure that assumptions applied are reasonable and within an acceptable range. The deficit at 31 December 2016 was £11.0m (2015: £5.5m) as set out in note 28.
How the scope of our audit responded to the risk	• We challenged and benchmarked key actuarial assumptions used individually and in aggregate against industry standards using our pension actuarial specialists; • Considered the sensitivity of key assumptions by reviewing assessments of variability and uncertainty; • Tested the valuation of the Society's share of the pension scheme assets; and • Tested the completeness and accuracy of the underlying data provided to the actuary.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

Risk title	**Revenue recognition**
Risk description	Premium income is recognised over the life of the respective policy on an accrual basis, with an unearned premium provision representing the portion of premiums relating to the unexpired term of the policy in force as at the year-end date We have identified as our key risk the risk that incorrect earnings patterns are applied to premiums under FRS 103 (for the general insurance business), leading to a potential misstatement of the split between earned and unearned premiums. Management judgement is required to apportion revenue between the amounts earned and unearned during the year. Net earned premiums were £20.8m in 2016 (2015: £20.8m) as set out in note 5 to the financial statements. The unearned premiums as at 31 December 2016 were £11.7m (2015: £11.0m) as set out in note 18 to the financial statements. The accounting policies applied are set out in note 1.
How the scope of our audit responded to the risk	• We have reconciled the total underlying premium data held in the accounting system against the general ledger balances to assess the completeness and accuracy of the premium income recognised in the financial statements; • Traced a number of premium receipts per the bank statement through to the premium data held in the accounting system to gain further assurance over the data's completeness; • Selected a sample of policies and performed test of details to verify the underlying data in the policy document against the premiums recorded in the accounting system to test the accuracy and valuation of the household premium class of transaction; • Reviewed the earnings pattern for the financial year and compared that with prior years for consistency; and • Performed a 100% recalculation of the unearned premium reserve to ensure that earned premium had been recognised in the appropriate period.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

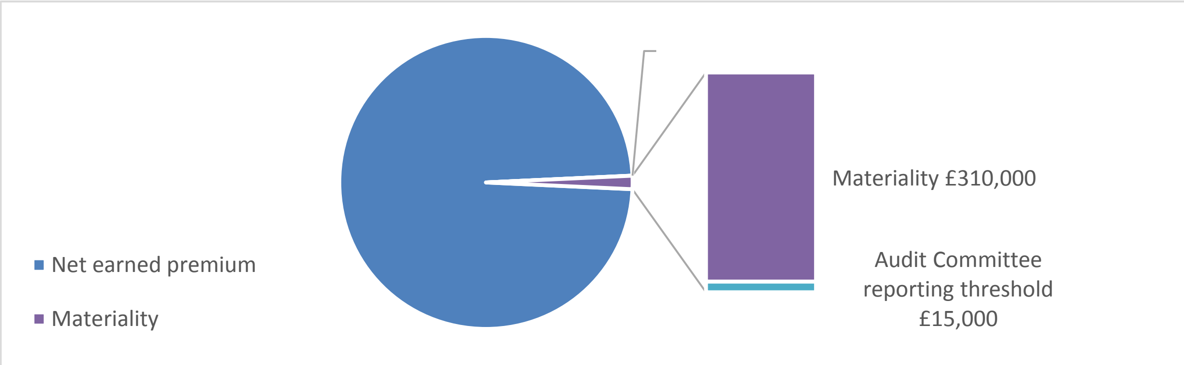
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£310,000 (2015: £312,000)
Basis for determining materiality	1.5% of net earned premium income.
Rationale for the benchmark applied	The net earned premium figure is considered an appropriate basis given the group continues to write new business, and the measure is stable and not subject to reserving fluctuations. Additionally, the performance of the Society is mainly measured by scale of business written which is gross premium income less of any insurance ceded out as reinsurance.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £15,000 (2015: £15,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and their environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group, which are all in one geographical location, was performed directly by the audit engagement team.

There were no significant changes in scope from the prior year audit. All trading entities within the group are managed together from the same location and each were subject to a full scope audit executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £51,000 to less than £1,000 (2015: ranged from £48,000 to less than £1,000).

We also tested the consolidation process at the parent entity level.

Opinion on other matters prescribed by our engagement letter

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Other matter

Corporate Governance Statement
In accordance with our instructions from the Society we review whether the Corporate Governance Report reflects the Society's compliance with those provisions of the UK Corporate Governance Code specified for our review by the Association of Financial Mutuals.

We have nothing to report arising from our review.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team.

This report is made solely to the Society's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

D Heaton

David Heaton (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

4 April 2017

UIA (Insurance) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT (continued)
for the year ended 31 December 2016
Non-technical account

	Notes	2016 £000	2015 £000
Earned premiums net of reinsurance			
Gross premiums written		**23,063**	23,029
Outwards reinsurance premiums		**(1,608)**	(2,183)
Change in the gross provision for unearned premiums		**(655)**	(62)
	5	**20,800**	**20,784**
Allocated investment return transferred from the non-technical account		**207**	144
Other Technical Income		**48**	-
Total Technical Income		**21,055**	**20,928**
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(13,671)**	(11,841)
Reinsurers' share		**2,527**	3,344
Change in the provision for claims:			
Gross amount		**1,789**	365
Reinsurers' share		**(1,621)**	(1,426)
		(10,976)	**(9,558)**
Changes in other technical provisions, net of reinsurance		**(280)**	-
Net operating expenses	6	**(12,471)**	(9,655)
Change in equalisation provision	20	**4,093**	2
Total technical charges		**(19,634)**	**(19,211)**
Balance on technical account for General business		**1,421**	**1,717**

CONSOLIDATED PROFIT AND LOSS ACCOUNT (continued)

for the year ended 31 December 2016
Non-technical account

	Notes	2016 £000	2015 £000
Balance on the general business technical account		**1,421**	**1,717**
Investment income	9	**1,547**	1,874
Changes in fair value	9	**3,289**	(1,808)
Net investment expenses	9	**(99)**	(75)
Allocate investment return transferred to the general business technical account		**(207)**	(144)
Other income	10	**32**	222
Profit on ordinary activities before taxation		**5,983**	**1,786**
Tax on profit on ordinary activities	11	**(506)**	(69)
Profit for the financial year		**5,477**	**1,717**

All of the income and expenditure relates to continuing operations and is attributable to the members.

The notes on pages 37 to 65 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Retained surplus for the year		**5,477**	**1,717**
Remeasurement of net defined benefit liability	28	**(5,481)**	1,109
Total comprehensive (expenses) / income for the year		**(4)**	**2,826**

All results are derived from continuing operations.

The notes on pages 37 to 65 form part of these financial statements.

UIA (Insurance) Limited

CONSOLIDATED BALANCE SHEET
as at 31 December 2016

	Notes	Group		Company	
		2016 £000	**2015** £000	**2016** £000	**2015** £000
ASSETS					
Intangible assets					
Development costs	13	**381**	452	**381**	452
Investments					
Other financial investments	14	**58,584**	55,703	**58,849**	55,968
Reinsurers' share of technical provisions					
Clams outstanding	19c	**2,516**	4,473	**2,516**	4,473
Debtors					
Arising out of direct insurance operations		**12,184**	14,176	**12,184**	14,176
Other debtors	15	**151**	204	**222**	272
		12,335	14,380	**12,406**	14,448
Other assets					
Tangible assets	16	**21**	30	**21**	30
Cash at bank and in hand		**3,268**	3,185	**3,221**	3,112
		3,289	3,215	**3,242**	3,142
Prepayments and accrued income					
Accrued interest		**19**	17	**19**	17
Deferred acquisition costs	17	**1,068**	809	**1,068**	809
Other prepayments and accrued income		**1,167**	853	**948**	667
		2,254	1,679	**2,035**	1,493
Total assets		**79,359**	79,902	**79,429**	79,976

The notes on pages 37 to 65 form part of these financial statements.

UIA (Insurance) Limited

CONSOLIDATED BALANCE SHEET (continued)
as at 31 December 2016

	Notes	Group		Company	
		2016 £000	**2015** £000	**2016** £000	**2015** £000
LIABILITIES					
Capital and reserves					
Share capital	18	**1**	1	**1**	1
Profit and loss account		**37,050**	37,054	**36,500**	36,526
Total Equity		**37,051**	37,055	**36,501**	36,527
Technical provisions					
Provision for unearned premiums	19a	**11,702**	11,047	**11,702**	11,047
Claims outstanding	19b	**10,594**	12,290	**10,594**	12,290
Equalisation provision	20	**-**	4,093	**-**	4,093
Other technical provisions	21	**280**	-	**280**	-
		22,576	27,430	**22,576**	27,430
Creditors					
Arising out of direct insurance operations		**3,091**	2,962	**3,091**	2,962
Arising out of reinsurance operations		**2,606**	4,190	**2,606**	4,190
Other creditors including taxation and social security	22	**3,011**	2,789	**3,631**	3,391
		8,708	9,941	**9,328**	10,543
Provision for other risks					
Provisions for pensions and similar obligations	23	**11,024**	5,476	**11,024**	5,476
Total liabilities		**79,359**	79,902	**79,429**	79,976

Approved by the Board of Directors and authorised for issue on April 2017 and signed on their behalf by:

Jon Craven
Director

The notes on pages 37 to 65 form part of these financial statements.

UIA (Insurance) Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

The Group	Share capital	Profit and loss account	Total
	£000	£000	£000
At 1 January 2015	**1**	**34,228**	**34,229**
Surplus for the financial year	-	1,717	1,717
Remeasurement of net defined benefit liability	-	1,109	1,109
At 31 December 2015	**1**	**37,054**	**37,055**
Surplus for the financial year	-	5,477	5,477
Remeasurement of net defined benefit liability	-	(5,481)	(5,481)
At 31 December 2016	**1**	**37,050**	**37,051**

The Company	Share capital	Profit and loss account	Total
	£000	£000	£000
At 1 January 2015	**1**	**33,997**	**33,998**
Surplus for the financial year	-	1,420	1,420
Remeasurement of net defined benefit liability	-	1,109	1,109
At 31 December 2015	**1**	**36,526**	**36,527**
Surplus for the financial year	-	5,455	5,455
Remeasurement of net defined benefit liability	-	(5,481)	(5,481)
At 31 December 2016	**1**	**36,500**	**36,501**

The notes on pages 37 to 65 form part of these financial statements.

UIA (Insurance) Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Net cash flow used by operating activities before investment of insurance assets	24	**(1,669)**	1,598
Cash generated from investment of insurance assets		**2,234**	(9,990)
Net cash generated from operating activities		**565**	(8,392)
Cash flow from investing activities			
Purchase of equipment		**(294)**	(469)
Net cash used in investing activities		**(294)**	(469)
Net cash increase/(decrease) in cash at bank and in hand		**271**	(8,861)
Cash and cash equivalents at beginning of year		**14,082**	22,943
Cash and cash equivalents at end of year		**14,353**	14,082
Cash at bank and in hand		**3,268**	3,185
Short-term deposits presented within other financial instruments		**11,085**	10,897
Cash and cash equivalents		**14,353**	14,082

The notes on pages 37 to 65 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. General information

UIA (Insurance) Limited is a Registered Society ("the Society" or "the Company") under the Co-operative and Community Benefit Societies Act 2014 and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority to carry out non-life insurance business. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 2 to 5.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation of investments at fair value or at amortised cost, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) issued by the Financial Reporting Council. The Company is subject to the requirements of the Companies Act 2006 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

In accordance with FRS 103, the Group has applied existing accounting policies for insurance contracts.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report. The Strategic Report also describes the financial position of the Group; its cash flows and liquidity position; the Group's objectives, policies and processes for managing its capital: its financial risk management objectives; details of its financial instruments; and its exposure to credit and liquidity risk.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and its subsidiary Companies made up to 31 December of each year. The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition.

Results of subsidiaries acquired or disposed of are included in the consolidated profit and loss account from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

2.3 Parent Company disclosure exemptions

UIA (Insurance) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

2.4 Insurance classification

The Group's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if, and only if, an insured event could cause an insurer to make significant additional benefits or incur losses in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

2. Accounting policies (continued)

2.5 Revenue recognition

Premiums written
Insurance and reinsurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium provision, which represents the proportion of premiums incepted in prior periods and that relate to periods of insurance cover after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24ths basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Investment return
Investment return consists of dividends, interest, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value assets.

Interest income
Interest income is recognised by applying the effective interest rate method, except for short-term receivables when recognition of interest would be immaterial.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Realised gains and losses
The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses
Unrealised gains or losses represent the difference between the carrying value at the financial year-end and the carrying value at the previous financial year-end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the financial year.

2.6 Taxation

Current tax including United Kingdom Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The taxation expense represents the sum of the tax currently payable and deferred tax.

United Kingdom taxation charged in the non-technical account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in the future have occurred at the balance sheet date.

2. Accounting policies (continued)

2.6 Taxation (continued)

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded are more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or that asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

2.7 Intangible assets

Software expenditure
An internally-generated intangible asset arising from the Group's software development is recognised only if all the following conditions are met:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Assets resulting from the purchase of software are initially measured at cost.

Software is amortised on a straight-line basis over its estimated useful life, which is typically three to five financial years.

Where no internally-generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The impairment policy is set out in note 2.10 below.

2.8 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer equipment	50%
Plant and machinery	20% to 50%
Fixtures and fittings	20% to 50%

2.9 Retirement benefit costs

Employees are eligible to join the defined benefit scheme of UNISON, which is a multi-employer scheme. The disclosures required to be made under the provisions of FRS 102 are made in note 28. Employees of both UIA (Insurance) Limited and UIA (Call Centres) Limited are eligible to participate in the scheme. It is only possible to ascertain the assets and liabilities at group level that attach to the companies.

2. Accounting policies (continued)

2.9 Retirement benefit costs (continued)

The Directors consider the scheme assets and liabilities attach solely to UIA (Insurance) Limited and as such the scheme is accounted for as a defined benefit scheme within the parent Company's accounts and at group level.

The current and past service costs are included within operating expenditure. Net interest costs are included within investment income. Remeasurement of the net defined benefit liability is accounted for in the statement of comprehensive income. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained every three years and are updated at each balance sheet date. The resulting defined benefit scheme liability is shown within note 28.

2.10 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicator of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of profit and loss account as described below.

Non-financial assets
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than he carrying value if no impairment had been recognised.

Financial assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for the decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value if no impairment had been recognised.

2.11 Financial assets and liabilities

The Company's investments comprise debt and equity instruments, cash and cash equivalents, receivables and investments in subsidiaries.

Recognition
Financial assets and liabilities are recognised when the Company enters into the contractual provisions of the instrument.

Initial measurement
All financial assets and liabilities are initially recognised at the transaction price (including transactional costs), with the exception of any financial assets and liabilities that are measured at fair value through the profit and loss account (which is normally the transaction price less the transaction cost), or if the arrangement constitutes a financing transaction. If the arrangement constitutes a financing transaction then the financial asset or liability is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

2. Accounting policies (continued)

2.11 Financial assets and liabilities (continued)

Subsequent measurement
Non-current debt instruments which meet the following criteria set out under FRS 102 section 11.9 are measured at amortised cost using the effective interest method:

a) Returns to the holder are a fixed amount, or a fixed rate of return over the life of the instrument, or a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate, or some combination of such fixed and variable rates as long as both are positive;
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods;
c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put back to the issuer before maturity are not contingent on future events other than to protect the holder against credit deterioration of the issuer, or a change in control of the issuer, or the holder or issuer, against changes in relevant taxation or law; and
d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provision described in (c).

Debt instruments that are payable and receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be paid or received net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through the profit and loss account.

Shares and other variable securities in unit trusts are measured at fair value through profit and loss.

Commitments to make and receive a loan that meet the conditions above are measured at cost less impairment.

Investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are measured at their fair value with changes in fair value being recognised in the statement of profit and loss when the shares are publicly traded or if their fair value can be measured reliably. All other such investments are measured at cost less impairment.

Fair value measurement
Where available, fair value is taken as a quoted price for an identical asset in an active market. If a quoted price is not available, the price of a recent transaction for an identical asset is used as long as there has not been a change in economic circumstances. If there is no active market and no recent transactions and an identical asset on its own is not a good estimate of fair value, an estimate of the fair value is made using another valuation technique.

Fair value estimate
The fair value measurement used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

FRS102 section 11.27 establishes a fair value hierarchy that prioritises the inputs to valuation methods used to measure fair value. The hierarchy is as follows:

Level 1: Fair value is measured using quoted prices of an identical asset in an active market. An active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions at an arm’s length basis;

Level 2: When quoted shares are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted; and

2. Accounting policies (continued)

2.11 Financial assets and liabilities (continued)

Fair value estimate (continued)

Level 3: If the market of the asset is not active and recent transactions of an identical asset on their own are not good estimates of fair value, the fair value is estimated using a valuation technique.

All our financial assets are held at Level 1 and there have been no transfers in or out of this level during the current year.

Impairment of financial instruments measured at amortised cost or cost
For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

For an instrument measured at cost less impairment the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. The Group recognises the amount of the reversal in the profit and loss account immediately.

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities three months or less and bank overdrafts.

Investment in subsidiaries
In the Company balance sheet, investments in subsidiaries are measured at cost less impairment.

2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

2.13 Insurance contracts

Claims
Claims consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses, net of salvage and subrogation recoveries.

Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the sale of insurance contracts. Deferred acquisition costs are those proportions of costs which relate to periods after the balance sheet date. The deferred acquisition costs are calculated on the same basis as the unearned premium.

2. Accounting policies (continued)

2.13 Insurance contracts (continued)

Provision for outstanding claims
Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. The provisions are not discounted. Included in the provision is an estimate of the internal and external costs of the handling of the outstanding claims. Material salvage and other recoveries including reinsurance recoveries are presented as assets.

Where significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business and subsidence claims, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claims provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

Equalisation provision
The equalisation reserve was previously required by law and maintained in compliance with the insurance companies' regulations and INSPRU Prudential Sourcebook for insurers. Solvency II replaces these rules with effect from 1 January 2016 and does not require an equalisation reserve to be held. The reserve was transferred to the technical account on 1 January 2016.

Liability adequacy
At each reporting date the Group performs a liability adequacy test on its insurance liabilities less related intangible assets to ensure that the carrying value is adequate, using current estimates of cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the profit and loss account initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

2.14 Reinsurance

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards insurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the profit and loss account. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

2.15 Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at cost. No discounting is applied due to their short-term nature.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period only, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies
The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Reserving
Reserving for claims is a critical judgement and is described in note 2.13 above.

Pensions
The employer pension scheme is valued on actuarial basis. The Company is an integral part of a wide scheme and therefore assets and liabilities are valued in total and an estimated proportion allocated to the Company.

In non valuation years this appointment is used to determine the pension scheme surplus or deficit.

4. Management of insurance and financial Risk

The Company monitors and manages the risks relating to the Company through the Risk Committee and through internal risk reports which include, but are not limited to the monthly management information (MI) pack, the Company's risk register and reports prepared as and when necessary.

The Company considers its largest risk exposures to be:

1. Market risk – due to the relative high exposure to equities;
2. Insurance risk – due to the uncertainty surrounding the timing, frequency and severity of household claims; and
3. Pension risk – due to the uncertainty surrounding the obligations to the Defined Benefit Pension Scheme.

4.1. Insurance risk

The Company accepts insurance risk through its insurance contracts. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company manages its risk via its underwriting and reinsurance strategy. Pricing is based on assumptions made by looking at trends and past experiences. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is used to reduce the effect of potential loss from individual large losses or events.

Capital management
From 1 January 2016 the measurement of our regulatory capital moved into the Solvency II regime. The Company has been calculating and reporting on this basis throughout the year. The following table is a summary of our capital position in accordance with the new regulation:

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Management of insurance and financial Risk (continued)

4.1. Insurance risk (continued)

Capital Management (continued)

	At 31 December 2016 £'000	2015 £'000
Market risk	**16,500**	13,400
Counterparty default risk	**1,000**	800
Non life underwriting risk	**10,2000**	9,500
Operational risk	**700**	700
Diversification	**(5,800)**	(5,100)
Total SCR	**22,600**	19,300
Total Resources	**38,800**	41,200
Total Surplus	**16,200**	21,900
SCR coverage	**172%**	213%

Note these figures are unaudited.

Assumptions and sensitivities
The risks associated with the household insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Company for estimating liabilities are:

- Chain Ladder;
- Expected loss ratio; and
- Benchmarking.

The Company considers that the liability for claims recognised in the balance sheet is adequate but actual experience will differ from the expected outcome. In order to mitigate this risk, the Company holds a prudential margin of reserves above the Best Estimate.

We have carried out some sensitivity tests on the actual results for the year ended 31 December 2016 and these are set out below.

	Underwriting Profit **2016** £'000	**2015** £'000
Base scenario	**1,421**	1,717
Adjusted Base Scenario (Equalisation removed)	**(2,672)**	1,717
2% Increase to Loss Ratio (46% - 48%)	**(3,222)**	1,396
5% Increase in Loss Ratio (46% - 51%)	**(3,725)**	849
Weather event in UK – Industry loss £250 million	**(3,423)**	1,134
5% increase in expenses	**(3,296)**	1,391

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Management of insurance and financial Risk (continued)

4.1 Insurance risk (continued)

Claims development tables
The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years.

Analysis of claims development – gross	**2016** £000	**2015** £000	**2014** £000	**2013** £000	**2012** £000	**2011** £000	**Total** £000
Estimates of ultimates							
End of accident year	10,984	10,121	9,471	10,633	13,254	11,321	
One year later		9,718	8,854	9,502	11,842	10,353	
Two years later			8,759	9,324	11,214	10,364	
Three years later				9,239	11,390	10,447	
Four years later					11,594	10,955	
Five years later						10,952	
Current estimate of ultimate claims	10,984	9,718	8,759	9,239	11,594	10,952	
Cumulative payments to date	(4,814)	(8,316)	(8,108)	(8,468)	(10,715)	(10,542)	
In balance sheet	6,170	1,402	651	771	879	410	10,283
Liability in respect of earlier years							311
Liability in balance sheet							10,594

Analysis of claims development – net	**2016** £000	**2015** £000	**2014** £000	**2013** £000	**2012** £000	**2011** £000	**Total** £000
Estimates of ultimates							
End of accident year	10,814	9,497	9,027	9,560	11,273	9,053	
One year later		9,037	8,593	8,384	9,716	7,954	
Two years later			8,481	8,064	9,335	7,938	
Three years later				8,003	9,165	7,698	
Four years later					9,157	7,640	
Five years later						7,591	
Current estimate of ultimate claims	10,814	9,037	8,481	8,003	9,157	7,591	
Cumulative payments to date	(4,802)	(7,815)	(7,995)	(7,845)	(9,071)	(7,529)	
In balance sheet	6,012	1,222	486	158	86	62	8,026
Liability in respect of earlier years							52
Liability in balance sheet							8,078

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Management of insurance and financial Risk (continued)

4.2 Market risk
Market risk is the risk of adverse financial impact as a consequence of market movements such as interest rates. Market risk arises due to fluctuations in both the value of the assets held and the value of liabilities. Risk is managed in line with the Company's risk appetite. The Company has established policies and procedures in order to manage market risk and methods to measure it.

4.3 Interest rate risk
Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk from movements on financial investments that have a fixed interest rate. As the amount of financial investments exposed to this risk is £1.4 million (2015: £1.5 million) the Board does not consider this to be a significant risk to the Company.

4.4 Equity risk
As disclosed in note 13, the Company has an investment portfolio that is mainly equity-based. At the year-end we held £32.7 million (2015: £35.4 million) in equities or equity-based investments. Under Solvency II we are required to hold capital amounting to £12.8 million (before portfolio diversification benefits) in respect of these assets in recognition of a potential fall in market value.

4.5 Credit risk
The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts owing in full when due. Areas where the Company is exposed to credit risk are:

- Reinsurers' share of insurance liability and amounts due from reinsurers in respect of claims already made;
- Amounts due from policyholders; and
- Deposits held with banks.

The carrying amount of financial and reinsurance assets represents the Company's maximum exposure to credit risk. There are no loans and receivables or insurance debtors due past 90 days and therefore none are considered impaired. No collateral is held in respect of any financial assets or liabilities.

The Company monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investment and reinsurance assets held.

Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. All reinsurers on the household programme are contracted to have a credit rating of A- or better. These are allocated below:

2016	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC ***	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000
Debt securities	1,935	11,844	4,828	3,912	123	538	791	23,971
Other investments	465	3,246	4,818	8,732	695	142	12,834	30,932
Deposits	-	-	2,001	-	-	-	-	2,001
Cash and cash equivalents	-	-	1,381	192	-	-	163	1,736
Reinsurance claim provision	-	2	1,165	-	-	-	1,349	2,516
	2,400	15,092	14,193	12,836	818	680	15,137	61,156

* includes unrated

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Management of insurance and financial Risk (continued)

4.5 Credit risk (continued)

2015	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	CCC * £000	Total £000
Debt securities	1,601	9,430	2,983	1,393	37	1,252	357	17,053
Other investments	653	3,090	6,555	21,328	762	137	1,350	33,875
Deposits	-	-	2,001	-	-	-	-	2,001
Cash and cash equivalents	-	1,116	1,670	3,184	-	-	-	5,970
Reinsurance receivables	-	506	1,697	-	-	-	2,270	4,473
	2,254	14,142	14,906	25,905	799	1,389	3,977	63,372

* includes unrated

4.6 Liquidity risk
Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. The Company has in place a liquidity management framework for the management of the Company's requirements.

The Company is exposed to liquidity risk from client insurance contacts. With regard to a catastrophic event there is liquidity risk arising from the timing difference between claim payment and recoveries from reinsurers. All claims are considered to be payable within one year from the balance sheet date, albeit we recognise some claims may in practice take longer to settle.

The Company has sufficient funds to cover insurance claims and in practice most of the Company's assets are marketable securities which can be converted into cash when required.

4.7 Pension risk
As disclosed in note 28, the Company is a participating employer within the UNISON Staff Pension Scheme. This is a multi-employer Defined Benefit pension scheme and as such our financial commitment to the scheme can vary significantly over time and we are dependent on a significant range of variables such as investment performance, longevity, interest rates, inflation and retirement ages.

However, the highest impact single risk facing the Company relates to the covenant of the other participating employers within the scheme. In the unlikely event of the insolvency of another employer, liability for the deficit could fall on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

5. Segmental analysis

Technical account 2016	Household	Home Emergency	Legal	Legal expenses	Total
	£000	£000	£000	£000	£000
Gross premiums written	**21,828**	**255**	**222**	**758**	**23,063**
Outwards reinsurance premiums	**(934)**	**(45)**	**(39)**	**(590)**	**(1,608)**
Change in the gross provision for unearned premiums	**(262)**	**(210)**	**(183)**	**-**	**(655)**
Earned premiums, net of reinsurance	**20,632**	**-**	**-**	**168**	**20,800**
Allocated investment return	**207**	**-**	**-**	**-**	**207**
Overriding commission	**-**	**24**	**24**	**-**	**48**
Claims incurred, net of reinsurance					
Claims paid	**(11,137)**	**-**	**-**	**(2,534)**	**(13,671)**
Reinsurers' share	**-**	**-**	**-**	**2,527**	**2,527**
Change in the provision for claims	**292**	**-**	**-**	**1,497**	**1,789**
Reinsurers' share	**(147)**	**-**	**-**	**(1,474)**	**(1,621)**
Change in other technical provisions	**(280)**	**-**	**-**	**-**	**(280)**
Net operating expenses	**(12,507)**	**-**	**-**	**36**	**(12,471)**
Change in equalisation provision	**4,093**	**-**	**-**	**-**	**4,093**
Balance on technical account	**1,153**	**24**	**24**	**220**	**1,421**

All insurance underwritten by the Company is in respect of risks incepted in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

5. Segmental analysis (continued)

Technical account 2015	Household £000	Legal expenses £000	Total £000
Gross premiums written	21,428	1,601	23,029
Outwards reinsurance premiums	(963)	(1,220)	(2,183)
Change in the gross provision for unearned premiums	(62)	-	(62)
Earned premiums, net of reinsurance	20,403	381	20,784
Allocated investment return	144	-	144
Overriding commission			
Claims incurred, net of reinsurance			
Claims paid	(8,500)	(3,341)	(11,841)
Reinsurers' share	-	3,344	3,344
Change in the provision for claims	(1,285)	1,650	365
Reinsurers' share	237	(1,663)	(1,426)
Net operating expenses	(9,466)	(189)	(9,655)
Change in equalisation provision	2	-	2
Balance on technical account	1,535	182	1,717

All insurance underwritten by the Company is in respect of risks incepted in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

6. Expenses

(a) Net operating expenses	2016 £000	2015 £000
Acquisition costs	**4,024**	4,172
Changes in deferred acquisition costs	**(259)**	(809)
Administrative expenses	**8,706**	6,292
	12,471	9,655

	2016	2015
(b) Auditor's remuneration		
Fees payable to the auditor for the audit of the annual accounts	**66**	69
Fees payable for the audit of subsidiary Companies pursuant to legislation	**12**	12
Other services pursuant to legislation	**28**	8
Other services pursuant to taxation	**3**	3
Other assurance services	**-**	15
	109	107
(c) Operating lease payments		
Rental of buildings	**306**	292
Hire of plant and machinery	**48**	42
	354	334

Non-audit services in respect of the Company provided to a third party totalled £nil (2015:£135,000)

Exceptional item

During 2015 we began an exercise to install a new insurance administration system. As described in the Strategic Report, it was recognised that the cessation of implementation work in January 2016 meant that the costs incurred of £383,000 (2015: £269,000) had to be written off in the 2016 accounts within net operating expenses.

7. Employee information

The average monthly average number of people (including Executive Directors) employed by the Group during the year was as follows:

	2016	2015
Underwriting and claims	**30**	30
Administration and finance	**24**	26
Sales and marketing	**23**	24
Subsidiary activities	**56**	54
	133	134

7. Employee information (continued)

Staff costs for the above persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	**2,842**	3,510
Social security cost	**273**	274
Pension cost	**769**	1,048
Holiday pay accrual	**(10)**	12
	3,874	4,844

8. Directors' emoluments

The remuneration of the Executive Directors who served during the year is detailed below:

	2016	2015
	£	£
Aggregate emoluments	**385,452**	325,009
Compensation for loss of office (excluding shares)	**-**	229,300
Sums paid to third parties for Directors' services	**26,400**	-
Excess retirement benefits		
- Current Directors	**72,737**	94,116
- Past Directors	**-**	-
Total Directors emolument	**484,589**	648,425

Highest paid Director		
Aggregate emoluments	**152,801**	426,504
Defined benefit pension scheme: Accrued pension at the end of the year (per annum)	**40,920**	58,311
	193,721	484,815

Disclosures on Directors' remuneration, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are contained in the tables in the Directors' Remuneration report on page 20.

9. Net investment return

	Net investment income	Amortised interest	Net investment expenses	Net realised gains/ (losses)	Changes in fair value	Net investment result
	2016	**2016**	**2016**	**2016**	**2016**	**2016**
	£000	£000	£000	£000	£000	£000
Equities	**561**	**-**	**(91)**	**779**	**3,202**	**4,451**
Bonds	**-**	**123**	**(6)**	**21**	**-**	**138**
Unit trusts	**60**	**-**	**(10)**	**132**	**87**	**269**
Term deposits	**30**	**-**	**-**	**-**	**-**	**30**
Cash and cash equivalents	**31**	**-**	**12**	**-**	**-**	**43**
Return on pension scheme	**(190)**	**-**	**-**	**-**	**-**	**(190)**
Other investment expenses	**-**	**-**	**(4)**	**-**	**-**	**(4)**
	492	**123**	**(99)**	**932**	**3,289**	**4,737**

	Net investment income	Amortised interest	Net investment expenses	Net realised gains/ (losses)	Changes in fair value	Net investment result
	2015	**2015**	**2015**	**2015**	**2015**	**2015**
	£000	£000	£000	£000	£000	£000
Equities	425	-	(74)	(1,882)	432	(1,099)
Bonds	-	78	(3)	(15)	-	60
Unit trusts	50	-	(1)	3,350	(2,240)	1,159
Term deposits	25	-	(13)	-	-	12
Cash and cash equivalents	38	-	23	-	-	61
Other investment income	18	-	-	-	-	18
Return on pension scheme	(213)	-	-	-	-	(213)
Other investment expenses	-	-	(7)	-	-	(7)
	343	78	(75)	1,453	(1,808)	(9)

10. Other Income

2016	Insurance services	Call centres	Lottery management services	Total
	£'000	£'000	£'000	£'000
Turnover	706	1,918	-	2,624
Administrative expenses	(668)	(1,919)	(5)	(2,592)
Retained profit / (loss) for the year	38	(1)	(5)	32

2015	Insurance services	Call centres	Lottery management services	Total
	£'000	£'000	£'000	£'000
Turnover	947	1,824	4	2,775
Administrative expenses	(726)	(1,823)	(4)	(2,553)
Retained profit for the year	221	1	-	222

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

11. Taxation on profit on ordinary activities

The Company, as a mutual, is not taxed on its transactions with members and only investment income is subject to corporation tax.

	2016	2015
	£000	£000
(a) Analysis of the tax charge		
UK corporation tax:		
Current tax	**68**	69
Adjustments in respect of previous periods	**-**	-
Total corporation tax	**68**	69
Changes in deferred tax balances (see (c))	**438**	-
Total current tax charge for the year	**506**	69

(b) Factors affecting tax charge for the year
The tax assessed for the year is lower than 20% (2015: lower than 20.25%) of taxable income for the year. The differences are explained below:

	2016	2015
	£000	£000
Investment income	**1,737**	2,087
Unrealised gains on investments	**3,289**	(1,807)
Investment expenses and charges	**(99)**	(75)
	4,927	205
Profit of subsidiaries	**33**	219
	4,960	424
Tax on investment income at 20% (2015: 20.25%)	**992**	85
Effects of:		
Fully franked investment income	**(92)**	(78)
Unrealised (loss) / gain movement	**(655)**	361
Difference between tax and accounts unrealised gains movement	**-**	20
Indexation	**(69)**	(319)
Charitable donations	**(10)**	-
Realised losses brought forward	**(98)**	-
Current tax charge for the year	**68**	69

(c) Provision for deferred taxation

	2016	2015
	£000	£000
Deferred tax at 1 January	**(3)**	-
Movement in the provision	**441**	(3)
Deferred tax at 31 December	**438**	(3)

In 2016, a deferred tax liability of £438,000 (2015:nil) was recognised in relation to unrealised gains.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

12. (Deficit) /Surplus for the financial year

Consistent with Section 408 of the Companies Act 2006 the Company income statement is not presented as part of these financial statements. The Group deficit for the financial year was £4,000 (2015: surplus of £2,826,000) which includes a £26,000 deficit (2015: surplus of £2,529,000), which is reported in the financial statements of the Company.

13. Intangible assets

(a) Intangible assets – Group

	Software development £000
Cost	
At 1 January 2016	**2,923**
Additions	**279**
Impairment	**(387)**
At 31 December 2016	**2,815**
Accumulated depreciation	
At 1 January 2016	**(2,471)**
Charge for the year	**(140)**
Impairment	**177**
At 31 December 2016	**(2,434)**
Net book value at 31 December 2016	**381**
Net book value at 31 December 2015	452

(b) Intangible assets – Company

	Software development £000
Cost	
At 1 January 2016	**2,923**
Additions	**279**
Impairment	**(387)**
At 31 December 2016	**2,815**
Accumulated depreciation	
At 1 January 2016	**(2,471)**
Charge for the year	**(140)**
Impairment	**177**
At 31 December 2016	**(2,434)**
Net book value at 31 December 2016	**381**
Net book value at 31 December 2015	452

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

14. Financial Instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	Group		Company	
	2016	**2016**	**2016**	**2016**
	Fair value	Cost	Fair value	Cost
Financial assets	£'000	£'000	£'000	£'000
Shares and other variable securities in unit trusts	**32,686**	**29,510**	**32,686**	**29,510**
Debt securities and other fixed income securities	**11,928**	**11,799**	**11,928**	**11,799**
Loans and receivables	**2,885**	**2,896**	**2,885**	**2,896**
Cash and cash equivalents	**11,085**	**11,085**	**11,085**	**11,084**
Total	**58,584**	**55,290**	**58,584**	**55,289**

	Group		Company	
	2015	**2015**	**2015**	**2015**
	Fair value	Cost	Fair value	Cost
Financial assets	£'000	£'000	£'000	£'000
Shares and other variable securities in unit trusts	35,413	35,590	35,413	35,590
Debt securities and other fixed income securities	7,220	7,179	7,220	7,179
Loans and receivables	2,173	2,153	2,173	2,153
Cash and cash equivalents	10,897	10,897	10,897	10,897
Total	55,703	55,819	55,703	55,819

The Group has no financial liabilities. (2015: £nil)

Investment in subsidiaries - Company

	2016	**2015**
	£000	£000
At 1 January	**265**	383
Impairment	**-**	(118)
At 31 December	**265**	265

The Company has five wholly-owned subsidiaries, which are registered in England and Wales:

- UIA (Insurance Services) Limited acts as an insurance agent;
- UIA (Call Centres) Limited acts as an operator of telephone call centres;
- UIA (Trustees) Limited acts as corporate trustee for the UIA Charitable Foundation;
- UIA Lottery Management Services Limited acts as a lottery operator; and
- Uniservice Limited (dormant)

Other income and other charges included in the non-technical account represent the income and expenditure of the subsidiary companies, (see note 10).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

15. Other debtors

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£000	£000	£000	£000
Amounts owed by other parties	**151**	185	**151**	185
Corporation tax	**-**	16	**-**	16
Deferred tax asset	**-**	3	**-**	-
Inter-company debtors	**-**	-	**71**	71
	151	204	**222**	272

16. Tangible assets

(a) Tangible assets – Group

	Computer equipment & systems	Furniture, fixtures & fittings	Total
	£000	£000	£000
Cost			
At 1 January 2016	**317**	**655**	**972**
Additions	**4**	**11**	**15**
Disposals	**-**	**(5)**	**(5)**
At 31 December 2016	**321**	**661**	**982**
Accumulated depreciation			
At 1 January 2016	**(302)**	**(640)**	**(942)**
Charge for the year	**(16)**	**(8)**	**(24)**
Disposals	**-**	**5**	**5**
At 31 December 2016	**(318)**	**(643)**	**(961)**
Net book value at 31 December 2016	**3**	**18**	**21**
Net book value at 31 December 2015	15	15	30

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

16. Tangible assets (continued)

(b) Tangible assets – Company

	Computer equipment & systems £000	Furniture, fixtures & fittings £000	Total £000
Cost			
At 1 January 2016	**277**	**612**	**889**
Additions	**4**	**11**	**15**
Disposals	**-**	**(5)**	**(5)**
At 31 December 2016	**281**	**618**	**899**
Accumulated depreciation			
At 1 January 2016	**(262)**	**(597)**	**(859)**
Charge for the year	**(16)**	**(8)**	**(24)**
Disposals	**-**	**5**	**5**
At 31 December 2016	**(278)**	**(600)**	**(878)**
Net book value at 31 December 2016	**3**	**18**	**21**
Net book value at 31 December 2015	15	15	30

17. Deferred acquisition costs – Group and Company

	2016 £000	2015 £000
Balance at 1 January	**809**	-
Movement in the provision	**259**	809
Balance at 31 December	**1,068**	809

During the year the accounting policy for deferred acquisition costs was reviewed and it was concluded to establish a provision, and hence the prior year has been amended to reflect this change.

18. Share capital

	2016 £000	2015 £000
Issued and fully paid up		
129,400 ordinary shares of 1p (2015: 128,700)	**1**	1

Policyholders and joint policyholders of home insurance policies are also members of the Company. A 1p share is allocated to each member when they first take out a home insurance policy and the share or shares are cancelled upon cessation of their policy. As such, the number of ordinary shares in issue changes each year in line with the number of members.

19. Technical provisions

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£000	£000	£000	£000
a) Provision for unearned premium – Gross				
Balance at 1 January	**11,047**	10,985	**11,047**	10,985
Movement in the provision	**655**	62	**655**	62
Balance at 31 December	**11,702**	11,047	**11,702**	11,047

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£000	£000	£000	£000
b) Claims outstanding – Gross				
Balance at 1 January	**12,290**	12,580	**12,290**	12,580
Movement in the provision	**(1,696)**	(290)	**(1,696)**	(290)
Balance at 31 December	**10,594**	12,290	**10,594**	12,290

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£000	£000	£000	£000
c) Claims outstanding – Reinsurer's share				
Balance at 1 January	**4,473**	5,899	**4,473**	5,899
Movement in the provision	**(1,957)**	(1,426)	**(1,957)**	(1,426)
Net claims outstanding at 31 December	**2,516**	4,473	**2,516**	4,473
Claims outstanding – Net	**8,078**	7,817	**8,078**	7,817

Within the movement in the provision is a release of £813,000 (2015: £434,000) which arose on an overestimate of prior years' claims which has been released to the current year consolidated profit and loss account.

20. Equalisation provision

The equalisation reserve was previously required by law and maintained in compliance with the insurance Companies' regulations and INSPRU Prudential Sourcebook for insurers. Solvency II replaces these rules with effect from 1 January 2016 and does not require an equalisation reserve to be held. The reserve of £4,093,000 was transferred to the technical account on 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

21. Other technical provisions – Group and Company

	2016	**2015**
	£000	£000
Provision for unexpired risks		
Balance at 1 January	**-**	-
Movement in the provision	**280**	-
Balance at 31 December	**280**	-

22. Other creditors

	Group		Company	
	2016	**2015**	**2016**	**2015**
	£000	£000	£000	£000
Corporation tax payable	**25**	44	**18**	**-**
Amounts owed to other parties	**2,986**	2,745	**2,832**	2,585
Inter-company creditors	**-**	-	**781**	806
	3,011	2,789	**3,631**	3,391

23. Provisions for other risks – Group and Company

	2016	**2015**
	£000	£000
Defined benefit pension scheme liability		
Balance at 1 January	**5,476**	6,404
Movement in the provision	**5,548**	(928)
Balance at 31 December	**11,024**	5,476

24. Reconciliation of operating surplus to cash generated by operations

	2016 £000	**2015** £000
Operating surplus before taxation	**5,983**	1,786
Adjustment for:		
Investment Income	**(4,927)**	(204)
Actuarial (loss)/gain on pension scheme	**(5,481)**	1,109
Pension costs provision	**5,548**	(928)
Depreciation	**24**	61
Amortisation	**140**	97
Loss on impairment of property, plant and equipment	**210**	1
(Decrease) in equalisation provision	**(4,093)**	**(2)**
Operating cash flows before movements in working capital	**(2,596)**	1,922
Decrease in reinsurance assets	**1,957**	1,426
(Increase) in deferred acquisition costs	**(259)**	(809)
(Decrease) in insurance contract liabilities	**(1,696)**	(290)
Decrease in receivables	**2,025**	2,586
(Increase)/decrease in accrued interest and prepayments	**(314)**	116
Increase in unearned premiums	**655**	62
(Decrease) in payables	**(1,647)**	(3,102)
Increase in other technical provisions	**280**	-
Cash generated by operations	**(1,595)**	1,909
Taxes paid	**(74)**	(311)
Net cash flow used by operating activities before investment of insurance assets	**(1,669)**	1,598
Interest and dividends received	**835**	582
Sales of financial investments	**30,114**	32,154
Purchase of financial investments	**(28,616)**	(42,669)
Rental income received from investment property	**-**	18
Net investment expenses	**(99)**	(75)
Cash generated from investment of insurance assets	**2,234**	(9,990)

25. Operating lease commitments - Group

The future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings	
	2016	**2015**
	£000	£000
Operating leases which expire:		
within one year	**305**	324
in two to five years	**839**	1,296
after more than five years	**-**	216
	1,144	1,836
Operating lease rentals charged to profit and loss in the year:	**306**	292

26. Related parties

Directors

Members of the Board of Directors may also be members of the Company through holding policies with the Company on the same terms as other members.

Directors' emoluments are disclosed in note 8.

Group Companies

UIA (Insurance) Limited transacts with other group companies in the normal course of business.

The Company has taken advantage of the exemption available under paragraph 33.1A of FRS 102 and has not provided details of transactions with entities forming part of the UIA Group.

27. Capital commitments

The Group has no capital commitments contracted for and payable within 12 months (2015: nil).

28. Pension costs

The Company participates in a funded pension scheme, the UNISON Staff Pension Scheme, which provides benefits for some of its employees based on final pensionable pay. The scheme is open to new members. The Company is one of several employers that sponsor the scheme.

The assets of the scheme are held in a separate trustee-administered fund. The scheme is administered by trustees and is independent of the Company's finances.

Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the trustees and the employers. The estimated amount of contributions expected to be paid to the scheme by the Company during 2017 is £1,043,000 (2016: £1,015,000).

28. Pension costs (continued)

The initial results of the formal actuarial valuation as at 30 June 2014 were updated to 31 December 2016 by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities has been measured using the projected unit method. The funding target is for the scheme to hold assets equal in value to the accrued benefits based on projected salaries. If there is a shortfall against this target, then the

Company and trustees will agree on deficit contributions to meet this deficit over a period.

The assets and liabilities of the scheme are not segregated between the employers that participate in the scheme. Consequently, the share of the scheme's liabilities in respect of the Company's employees and former employees, and the assets backing those liabilities, has been estimated.

The following table sets out the key FRS 102 assumptions used for the scheme.

Assumptions	**2016**	**2015**
Discount rate	**2.7% pa**	3.8% pa
Retail Prices Index inflation	**3.3% pa**	3.1% pa
Consumer Prices Index inflation	**2.3% pa**	2.1% pa
Pension increases in payment	**3.3% pa**	3.1% pa
General salary increases	**2.8% pa**	2.1% pa
Life expectancy of male currently aged 60	**26.7 years**	26.6 years
Life expectancy of male aged 60 in 20 years time	**28.6 years**	28.5 years

The amount included in the balance sheet arising from the Company's obligations in respect of the scheme is as follows:

	2016	**2015**
	£000	£000
Present value of scheme liabilities	**38,390**	27,473
Fair value of scheme assets	**(27,366)**	(21,997)
Scheme deficit	**11,024**	5,476

The amounts recognised in operating surplus are as follows:

	2016	**2015**
	£000	£000
Current service cost	**798**	942
Running costs	**95**	78
Interest expense	**189**	212
Total operating charge	**1,082**	1,232

28. Pension costs (continued)

The following amounts are included in finance income:

	2016 £000	2015 £000
Running costs	**95**	78
Net interest on net defined liability	**189**	212
Total charge to finance income	**284**	290

The current allocation of the scheme's assets is as follows:

	2016 £000	2015 £000
Equity instruments	**43%**	43%
Debt instruments	**30%**	29%
Property	**9%**	9%
Multi-asset funds	**18%**	19%
Cash	**0%**	0%
	100%	100%

Changes in the present value of the Company's share of the scheme's liabilities are as follows:

	2016 £000	2015 £000
Opening present value of defined benefit obligation	**27,473**	26,856
Current service cost	**798**	942
Interest on obligation	**1,031**	961
Contributions from scheme members	**2**	-
Actuarial gain/(loss)	**9,780**	(967)
Benefits paid	**(694)**	(319)
Closing present value of defined benefit obligation	**38,390**	27,473

Changes in the fair value of the Company's share of the scheme's assets are as follows:

	2016 £000	2015 £000
Opening fair value of the scheme assets	**21,997**	20,452
Interest on scheme assets	**842**	749
Actuarial return less interest on scheme assets	**4,299**	142
Running costs	**(95)**	(78)
Contributions by the employer	**1,015**	1,051
Contributions by scheme members	**2**	-
Benefits paid	**(694)**	(319)
Closing fair value of scheme assets	**27,366**	21,997

The actual return on the Company's share of the scheme's assets over the year was £5,141,000 gain (2015: £891,000 gain).

UIA (Insurance) Limited

Glossary
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Strategic Reports
Key Performance Indicators

$$\text{Combine Operating Ratio} = \frac{\text{Incurred Losses + Expenses}}{\text{Earned Premiums}}$$

$$\text{Household Loss Ratio} = \frac{\text{Claims paid + Change in provision for claims – reinsurers' share}}{\text{Earned Premiums}}$$

$$\text{Underlying Household Expense ratio} = \frac{\text{Net Operating Expenses}}{\text{Earned Premiums}}$$

$$\text{Investment Yield} = \frac{\text{Net Investment Income + Realised gains – Investment expenses}}{\text{Prior year investment balance}}$$

$$\text{Return on Capital employed (ROCE)} = \frac{\text{Total comprehensive income for the year}}{\text{Prior year Shareholders Equity}}$$

$$\text{Solvency II cover} = \frac{\text{Total eligible own funds}}{\text{SCR}}$$